The influence of organizational status on price and legitimacy in the Bordeaux wine region

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Conference Presentation

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Keywords
Status - Classification system - Price - Ranking - Legitimacy

Research Question
What is the influence of organizational status as classification system on price, legitimacy and expert recommendations from wine guides?

Methods
We use the guide Hachette des vins to collect data. We compare 5 classifications systems in the Bordeaux region and we compare them over time (1996 and 2007) using STATA.

Results
We find that the different classification systems are relatively stable over time. However, they provide economic advantages (price premium) but no social benefits (legitimacy).

Abstract
The influence of organizational status on price and legitimacy in the Bordeaux wine region

Introduction
The process of social evaluation of organizations by diverse types of audiences occurs on all levels of the social and economic activities. For instance, customers evaluate firms and their products before any act of purchase, banks run a due diligence before conferring loans. The evaluation process is a difficult one. Hence, categories, hierarchies, rankings, classifications have been created to simplify a complex social reality. The literature identified and compared concepts such as reputation (Frombrun and Shanley, 1990), status (Podolny, 1993) and prestige (Perrow, 1961) to create boundaries and classify groups of entities.
Herein, our purpose consists in getting a better understanding of the status concept as a classification system, especially its influence as it has been rarely investigated in the literature. More specifically, we analyze the economic (price) and social (legitimacy) advantages of organizational status, as well as the benefits deriving from intermediary stakeholders (recommendations by wine guides). Consequently, we aim to answer the following research question: What is the influence of organizational status as a classification system on price and on legitimacy?

Theoretical development

Several approaches (sociology, interactionist, and exchanged-based) to organizational status have been developed in the academic literature. Status is a social construct based on a classification and order created and accepted by social actors (Washington and Zajac, 2005). Hence, status represents the prestige (Perrow, 1970) granted to firms due to their hierarchical position within a social structure (Jensen and Roy, 2008), or the admiration due to their socially approved qualities (Ellis and Keedy, 1960).

Status represents a socially accepted position within an institutional system (Davis, 1942). In general, we can find three levels of status: lower, middle and higher level of status (Phillips and Zuckerman, 2001). Status is fundamentally ordinal and categorical (Deephouse and Suchman, 2008).

How are hierarchies of status formed?
Social interactions define status hierarchy and ranking through social acceptation (or rejection) of status claims (Ravlin and Thomas, 2005). Claims represent pertinent criteria to form hierarchies. For claims to be socially accepted, actors communicate using symbols of status. These symbols are widely linked to the context they belong to. Once the rankings, hierarchies and stratifications are created and accepted, actors use symbols of claim to reproduce (or reject) these models of status (Sauder, 2005). Over time, claims can change, and consequently, rankings can evolve.

Benefits of organizational status
Several advantages derive from increasing the ranking of an organization within a socially accepted hierarchy. These benefits are either economic (ex: apply a price premium) or social (ex: legitimacy conferred from multiple audiences) (Westphal, Gulati and Shortell, 1997).

Empirical setting – French wine context

The French wine industry is appropriate to analyze status and hierarchies of status over time for several reasons. First, status, rankings, orders and hierarchies represent key dimensions in the wine sector not only in France, but also on a worldwide basis. Second, the wine sector went through major changes over the past 30 years that affected established orders, rankings and hierarchies of status. Finally, the wine sector represents an appropriate setting to study status as a socially constructed concept in a particular context.

Wine making in France is more than 2000 years old. Some regions specialized in wine for several reasons, such as political events (wars, tax policies), natural events (climate) and technical innovations (transportation, “méthode champenoise”), etc. (Deroudille, 2003). Furthermore, wine is not just a good or a product; it also possesses religious, social and cultural dimensions. Transportation, quality, and consistency over time represented challenges to be overcome from early times. Therefore, wine producers engaged in activities in order to produce quality wine, especially during the middle age and renaissance. Wine testing was created to compare wine and promote competition. Even though we find evidence of such activities as early as 1224, the first official ranking goes back in 1855 when Emperor Napoleon III requested an official classification system of Bordeaux Wines. Since then, other classification systems (official or not) were created.

The objectives of some hierarchies consisted in protecting a shared understanding of quality and prestige, while other consisted in protecting wine producers and/or providing information to consumers. These rankings and
established hierarchies confirm the complexity of the status concept. However, over the past 30 years, French wines have been challenged on a worldwide basis. The consumption changed drastically, new techniques for wine making (“flying wine makers”) and wine marketing (packaging, distribution channels) were introduced. Globalization played a major role - new demand, new entrants challenged the old way of considering wine. Therefore, sense making did not make sense anymore. Existing symbols and hierarchies of status were not understood and shared by new players in the market place. For instance, the judgment of Paris in 1976, which involved wine blind testing between French and California wines, fully challenged former status hierarchies in the wine world (Ashenfelter and Quandt, 1999).

Data collection
We collected data from the Guide Hachette des Vins. Between 1996 and 2007, 1884 Bordeaux wines were analyzed. We controlled for the age of the appellation, the age of the wine presented, and the organizational size (number of bottles of the wine selected) as they might influence the results. Two approaches to status co-exist which encompass both official and non-official ranking systems:
(1) In the objective approach to status, rankings are based on objective characteristics (ex: wine color; grape variety). The “classement des Graves” (created in 1953 and revised in 1959) and the “crus artisans” fall into this category. (2) In the subjective approach, status is context-based. It derives from the interactions among actors and represents the consensus regarding the dimensions used as hierarchy criteria (Podolny and Philipps 1996; Benjamin and Podolny, 1999). Such criteria are used as signals and are even more important when information and quality are difficult to acquire and to assess (Sauder and Lancaster, 2006). The following rankings fall into this category: “classement 1855”, “classement Saint-Emilion” and “classement des Médoc”. Hence, status is measured based on two dimensions: the prestige of the ranking and the position within the hierarchy (Shane and Di Gregorio, 2003). The status scores range from 0 to 10.

Key Findings
First, we find that ranking hierarchies are used differently among wine appellations (AOC) (Chi2 = 1.9, p=0.00). Results show that the official 1855 classification promotes excellence. The Graves ranking is bi-modal. Organizations either have an average (5) or excellent (10) status. The Saint-Emilion (Grand Cru) ranking offers a lower status level in comparison to other appellations (AOC), ranging between 4 and 6. In the Médoc, only 73 wines are not ranked. However, three different rankings co-exist within this AOC, which can create confusion among actors, especially consumers. Hence, firms might not benefit from the advantages deriving from belonging to wine rankings.

We analyzed the influence of status on legitimacy and price respectively in 1996 and 2007. We also investigated the lagged influence. Overall, we find that all 6 models tested are significant (F test at 0.00 significance levels) and explain between 19% and 30% of the variance. Interestingly, status has a positive and significant economic impact for all three models tested. The greater the status is, the higher the selling price of a bottle of wine (t-tests at 0.00 significance levels). Inversely, we find that status does not confer legitimacy (negative significant influence for all 3 models tested).

In addition, wines that were recommended by the Guide Hachette des Vins explain price premium strategies. However, recommended wines do not confer legitimacy as the results are not significant for all three models tested (1996, 2007 and lagged).

Our findings contribute to the literature on institutional and competitive pressures that organizations are facing. Previous studies have analyzed the social and economic benefits in different settings. Herein, we find that organizational status brings economic benefits, but not social ones. These results have managerial implications for wine producers who engage in activities to receive social support and to gain economic efficiency in a globalized world. The findings also emphasize the role of wine guides. They do not only provide information that can be used by different audiences – mainly consumers making decisions to purchase wine bottles – but also serve as heuristics in such processes.
REFERENCES AVAILABLE UPON REQUEST